

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 PA-04 PRS-01

USIA-15 FRB-02 DRC-01 FS-01 ABF-01 CIAE-00 COME-00

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 /176 W

----- 062477

R 070853Z DEC 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8630

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMCONSUL HONG KONG

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 15881

PASS TREASURY AND FED RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS -- DEC 3-7

1. DOLLAR IN SPOT MARKET HELD STEADY THROUGHOUT WEEK OF RELATIVELY QUIET TRADING. REPRESENTATIVE RATE CLOSED ON FRI AT Y280.00, SAME AS ON MON. TRANSACTIONS DURING THE WEEK WERE IN THE RANGE OF Y279.95 TO Y280.00 PER DOLLAR. VOLUME IN THE SPOT MARKET WAS MODERATE, WITH DAILY HIGH REACHED ON
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FRI OF \$119.5 MIL. TOTAL WEEKLY VOLUME WAS \$419.7 MIL. BOJ

OFFICIAL DESCRIBED MARKET AS STEADY AND RELATIVELY CALM, WITH TOTAL CENTRAL BANK INTERVENTION (DOLLAR SALES) AT APPROX \$200 MIL FOR THE WEEK. HE STATED THAT QUIET TONE OF MARKET DUE TO FACT IMPORT PAYMENTS ARE LOW, AS IS NORMAL DURING FIRST HALF OF MONTH, AND AS WELL THAT RECENT IMPORT SUPPLIES OF CRUDE OIL TO JAPAN HAVE REMAINED STEADY (THUS AVOIDING ANY PSYCHOLOGICAL PANIC).

2. FORWARD DOLLAR RATES WEAKENED STEADILY THROUGHOUT THE FIVE-DAY PERIOD. THREE-MONTH FORWARD (MAR DELIVERY) CLOSED ON DEC 7 AT Y287.50, DOWN Y3.50 FROM MONDAY'S CLOSE. SIX-MONTH FORWARD (JUNE DELIVERY) CLOSED WEEK AT Y292.60, DOWN Y3.40 FROM MONDAY. END OF WEEK CLOSE FOR THREE-MONTH FORWARD REPRESENTED PREMIUM OF 10.71 PERCENT WHILE THAT FOR SIX-MONTH FORWARD REPRESENTED PREMIUM OF 9.70 PERCENT. TOTAL VOLUME IN THE FORWARD MARKET REMAINED HEAVY AT \$588.8 MIL. TOTAL VOLUME IN THE SWAP MARKET REGISTERED \$301.0 MIL.

3. BOJ CONFIRMED REPORT THAT DURING NOV APPROX \$600 MIL OF MOF SPECIAL FOREX DEPOSITS WITH COMMERCIAL BANKS (50 PERCENT OF MATURING FUNDS) NOT ROLLED OVER BUT PUT BACK IN RESERVES. THUS, ACTUAL DECLINE IN RESERVES WAS ABOUT \$1,453 MIL AS AGAINST DECLINE IN PUBLISHED RESERVES OF \$853 MIL. OFFICIAL STATED \$200 MIL MOF DEPOSITS MATURING IN DEC, WHICH IS MONTH OF "LIGHT" FOREX DEMAND, ALTHOUGH JAN WILL SHOW USUAL STRONG SEASONAL DOLLAR DEMAND. MATURING MOF DEPOSITS EXPECTED TO TOTAL APPROX \$2.0 BIL DURING JAN, THUS NECESSITATING DECISION ON EXTENT OF ROLLOVER AT THAT TIME.

4. IN PAST WEEK, FOLLOWING CAPITAL CONTROLS LOOSENED BY GOJ. FOREIGNERS NOW ALLOWED TO PURCHASE JAPANESE BONDS, AS WELL AS EQUITIES, WITHOUT RESTRICTION. IN ADDITION, RESERVE REQUIREMENT ON FREE YEN DEPOSITS LOWERED FROM 50 PERCENT TO 10 PERCENT. ABOVE-MENTIONED OFFICIAL CONFIDED, HOWEVER, THAT REDUCTION IN RESERVE RATIO AND ABOLITION OF RESTRICTION ON BOND PURCHASES LIKELY TO HAVE LITTLE EFFECT ON INDUCING CAPITAL INFLOWS, SINCE CURRENT SITUATION AND BOP OUTLOOK WOULD NOT BODE FAVORABLY FOR MOVE OUT OF STRONG CURRENCY (SUCH AS DOLLAR) INTO YEN.

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